State of South Carolina

Office of the State Auditor
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STATE AUDITOR

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October 22, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
Francis Marion University
Florence, South Carolina

This report on the audit of the financial statements of Francis Marion University for the fiscal year ended June 30, 2001, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

FRANCIS MARION UNIVERSITY

FLORENCE, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

FRANCIS MARION UNIVERSITY

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YEAR ENDED JUNE 30, 2001

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of Francis Marion University (the University) as of June 30, 2001, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying financial statements of the University are intended to present the financial position, changes in fund balances and current funds revenues, expenditures, and other changes and the results of operations and cash flows of its component unit of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements include the financial activities of the Francis Marion University Center for Research and Professional Services, a component unit of the University. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes and the results of operations and cash flows of its component unit for the year then ended in conformity with accounting principles generally accepted in the United States of America.

These financial statements exclude the related entity described in Note 15 from the reporting entity because the University is not financially accountable for this entity. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

Rogers & Laban, P.A.

September 6, 2001

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FRANCIS MARION UNIVERSITY

BALANCE SHEET - UNIVERSITY FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2001

	CURRENT FUNDS				PLANT FUNDS					
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	Agency Funds	Component Unit	Totals (Memorandum Only)
ASSETS										
Cash and cash equivalents	$ 1,235,977	$ 309,495	$ 139,000	$	$ 821,022	$ 4,306,391	$	$ 124,821	$ 600	$ 6,937,306
Accounts receivable, net of provision for doubtful accounts $20,992	800,800	75,590	12,907	715				1,319		891,331
Pledge receivable					80,000					80,000
Due from State agency	10,264									10,264
Interest and investment income receivable	1,619	149	759		4,116	60,017				66,660
Endowment income receivable		14,000								14,000
Prepaid items	414,554									414,554
Inventories	80,933									80,933
Loans to students			1,726,139							1,726,139
Capital improvement bonds proceeds recei					750,000					750,000
Note receivable				200,000						200,000
Land							632,392			632,392
Non-structural improvements							5,970,842			5,970,842
Buildings							53,968,060			53,968,060
Equipment							2,825,303			2,825,303
Library books and materials							11,151,024			11,151,024
Computer software							18,020			18,020
Less, accumulated amortization							(5,406)			(5,406)
Construction in progress					733,385					733,385
TOTAL ASSETS	$ 2,544,147	$ 399,234	$ 1,878,805	$ 200,715	$ 2,388,523	$ 4,366,408	$ 74,560,235	$ 126,140	$ 600	$ 86,464,807
LIABILITIES AND FUNDS EQUITIES										
Accounts payable	$ 50,989	$ 1,251	$	$	$ 129,000	$	$	$	$ 37	$ 181,277
Accrued payroll and related liabilities	198,504									198,504
Deferred revenues	347,859									347,859
Student deposits	173,250									173,250
Compensated absences payable and related liabilities	1,179,369									1,179,369
Due to related party									600	600
Deposits held for others		500						126,140		126,640
Accrued interest payable						53,890				53,890
Obligations under capital leases							83,199			83,199
Bonds payable							5,430,000			5,430,000
Fund balances	594,176	397,483	1,878,805	200,715	2,259,523	4,312,518				9,643,220
Net investment in plant							69,047,036			69,047,036
Retained earnings (deficit)									(37)	(37)
TOTAL LIABILITIES AND FUNDS EQU	$ 2,544,147	$ 399,234	$ 1,878,805	$ 200,715	$ 2,388,523	$ 4,366,408	$ 74,560,235	$ 126,140	$ 600	$ 86,464,807

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	CURRENT FUNDS		Loan	Endowment and Similar	PLANT FUNDS			Totals
	Unrestricted	Restricted	Funds	Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	(Memorandum Only)
REVENUES AND OTHER ADDITIONS:								
Unrestricted current funds revenues	$ 33,691,067	$	$	$	$	$	$	$33,691,067
State appropriations - restricted		1,625,672						1,625,672
Student fees - restricted						306,303		306,303
Federal grants and contracts - restricted		2,777,262	26,922					2,804,184
State grants and contracts - restricted		48,059			23,750			71,809
Local grants and contracts - restricted		5,944			45,000			50,944
Private gifts - restricted		848,527			175,332		21,770	1,045,629
Capital improvement bond proceeds					750,000			750,000
Interest/investment income - restricted		6,103	9,346		23,083	468,535		507,067
Endowment income (loss) - restricted		3,823		(37,685)				(33,862)
Interest on loans to students			24,146					24,146
U.S. government advances			48,086					48,086
Expended for plant facilities (including $643,288 charged to current fund expenditures							1,083,407	1,083,407
Retirement of indebtedness							959,939	959,939
Other additions			1,056					1,056
TOTAL REVENUES AND OTHER ADDITIONS	33,691,067	5,315,390	109,556	(37,685)	1,017,165	774,838	2,065,116	42,935,447
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	28,908,655	5,270,705						34,179,360
Auxiliary enterprises expenditures	3,717,519	14,032						3,731,551
Indirect cost remitted to General Fund of the State	17,534							17,534
Indirect cost recovered		56,833						56,833
Loan cancellations and write-offs			27,600					27,600
Expended for plant facilities (including non-capitalized expenditures of $94,677)					534,796			534,796
Retirement of indebtedness						959,939		959,939
Interest, executory and other costs on indebtedness						255,144		255,144
Amortization of computer software							3,604	3,604
Disposals of plant assets							167,216	167,216
Refunds to grantors		20,116						20,116
Other deductions			318					318
TOTAL EXPENDITURES AND OTHER DEDUCTION	32,643,708	5,361,686	27,918	0	534,796	1,215,083	170,820	39,954,011

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

	CURRENT FUNDS				PLANT FUNDS			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	Totals (Memorandum Only)
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS)								
Mandatory transfers for:								
Principal, interest, executory and other costs	(3,183,195)					3,183,195		
Loan fund matching grant	(16,029)		16,029					
Nonmandatory Transfers:								
From Unrestricted Current Fund	(313,609)				122,821	190,788		
From Retirement of Indebtedness Fund	2,273,600				281,416	(2,555,016)		
From Unexpended Plant Fund	119,066				(119,066)			
TOTAL TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)	(1,120,167)	-	16,029	-	285,171	818,967		
NET INCREASE (DECREASE) FOR THE YEAR	(72,808)	(46,296)	97,667	(37,685)	767,540	378,722	1,894,296	2,981,436
FUND BALANCES - BEGINNING OF YEAR	666,984	443,779	1,781,138	238,400	1,491,983	3,933,796	67,152,740	75,708,820
FUND BALANCES - END OF YEAR	$ 594,176	$ 397,483	$ 1,878,805	$ 200,715	$ 2,259,523	$ 4,312,518	$ 69,047,036	$ 78,690,256

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

FOR THE YEAR ENDED JUNE 30, 2001

	Unrestricted	Restricted	Totals
REVENUES:			
Student fees	$ 11,805,607	$	$ 11,805,607
State appropriations	16,312,334	1,618,399	17,930,733
Federal grants and contracts	56,833	2,659,994	2,716,827
State grants and contracts	36,019	59,809	95,828
Local grants and contracts	58,941	10,601	69,542
Nongovernmental grants and contracts	362,816		362,816
Private gifts	79,933	915,713	995,646
Interest/investment income	7,413	6,221	13,634
Endowment income		14,000	14,000
Sales and services of auxiliary enterprises	4,771,398		4,771,398
Other sources	199,773		199,773
TOTAL CURRENT REVENUES	33,691,067	5,284,737	38,975,804
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and general:			
Instruction	13,040,356	192,272	13,232,628
Research		27,481	27,481
Public service	276,568	354,338	630,906
Academic support	3,123,570	21,943	3,145,513
Student services	2,981,870	73,599	3,055,469
Institutional support	3,849,649	55,350	3,904,999
Operation and maintenance of plant	4,464,375	11,264	4,475,639
Scholarships and fellowships	1,172,267	4,534,458	5,706,725
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	28,908,655	5,270,705	34,179,360
Mandatory transfers for:			
Loan fund matching grant	16,029		16,029
Principal, interest, executory and other costs	43,367		43,367
TOTAL EDUCATIONAL AND GENERAL	28,968,051	5,270,705	34,238,756
Auxiliary enterprises:			
Expenditures	3,717,519	14,032	3,731,551
Mandatory transfers for principal and interest	3,139,828		3,139,828
TOTAL AUXILIARY ENTERPRISES	6,857,347	14,032	6,871,379
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	35,825,398	5,284,737	41,110,135
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):			
Indirect cost remitted to General Fund of the State	(17,534)		(17,534)
Nonmandatory transfers from Plant Funds	2,392,666		2,392,666
Nonmandatory transfers to Plant Funds	(313,609)		(313,609)
Refund to grantors		(20,116)	(20,116)
Excess of restricted receipts over (under) transfers to revenues		(26,180)	(26,180)
TOTAL TRANSFERS AND OTHER ADDITIONS (DEDUCTIONS)	2,061,523	(46,296)	2,015,227
NET INCREASE/(DECREASE) IN FUND BALANCES	$ (72,808)	$ (46,296)	$ (119,104)

See accompanying Notes to Financial Statements.

CENTER FOR RESEARCH AND PROFESSIONAL SERVICES -
A COMPONENT UNIT OF FRANCIS MARION UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 2001

Revenues:	
Local grants and contracts	$ 21,662
Expenses:	
Contracted services	21,971
General and administrative	37
Total expenses	22,008
Operating income (loss)	(346)
Nonoperating revenue:	
Interest/investment income	308
Net Income (loss)	(38)
Retained earnings - beginning of year	1
Retained earnings deficit - end of year	$ (37)

See accompanying Notes to Financial Statements.

CENTER FOR RESEARCH AND PROFESSIONAL SERVICES -
A COMPONENT UNIT OF FRANCIS MARION UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2001

Cash flows provided by (used for) operating activities:	
Cash received from grants	$ 3,894
Cash paid for contract services	(21,971)
Net cash provided by (used for) operating activities	(18,077)
Cash flows from investing activities:	
Interest/investment income received	308
Net cash provided by investing activities	308
Cash flows provided by noncapital financing activities	
Loan received from related party	600
Net cash provided by noncapital financing activities	600
Net increase (decrease) in cash and cash equivalents	(17,169)
Cash and cash equivalent, beginning of year	17,769
Cash and cash equivalents, end of year	$ 600
Reconciliation of cash flows from operating activities:	
Operating income (loss)	$ (346)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Increase (decrease) in deferred revenue	(17,768)
Increase (decrease) in accounts payable	37
Total adjustments	(17,731)
Net cash provided by (used for) operating activities	$ (18,077)

See accompanying Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Governmental Accounting Standard Board (GASB) is the recognized standard-setting body in the United States of America for generally accepted accounting principles (GAAP) for all governmental entities including colleges and universities. The financial statements of Francis Marion University have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities,* as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities,* as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University (a primary entity) and its component unit.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

(1) Determines its budget without another government's having the authority to approve and modify that budget.
(2) Levies taxes or sets rates or charges without approval by another government.
(3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined this financial reporting entity includes the University and its component unit.

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Primary Entity (Continued)

higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University, located in Florence, South Carolina, is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The University is governed by a Board of Trustees which is composed of the Governor of the State or his designee, who is an ex officio member of the board, and sixteen other members. Fifteen of the members are elected by the General Assembly and one member is appointed from the State at large by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes and the results of operations and cash flows of its discretely presented component unit of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component unit.

Based on the application of the above criteria, the component unit is included in the reporting entity because of the significance of its operational or financial relationship with the University. The following identifies the University's component unit and the methods of reporting it in these financial statements.

Component Unit

The Francis Marion University Center for the Research and Professional Services (FMU Center) is a separately chartered corporation. FMU Center was formerly known as the South Carolina Environmental Education Consortium (Consortium).

The entity's name was changed pursuant to an amendment adopted March 1, 2000 and filed with the South Carolina Secretary of State April 11, 2000. FMU Center's current purpose is to assist in furthering the research, service and outreach initiatives of the University's mission by providing professional consultative services, performing contract research and data analysis for clients in the State and region and to engage in other charitable, educational or other lawful activities permitted by an organization which qualifies as exempt under section 501 (c) (3) of the Internal Revenue Code or the corresponding section of any future federal tax code, and comparable South Carolina law provisions, including, for such purposes, the making of distributions to other organizations that qualify as exempt organizations under such code sections. FMU Center is governed by a Board of Directors all of which are employees of the University or the Francis Marion University Foundation. This relationship allows the University to impose its will on the Board of Directors resulting in a presentation of FMU Center in a discrete column of the University's financial statements.

Separate financial statements on the FMU Center were not issued.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Presentation of Component Unit

Some component units, despite being legally separate from the University (the primary entity), are so intertwined with it that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable University fund groups as if they were balances and transactions of the primary entity or in discrete columns and included in the "primary entity" totals.

Other component units, also legally separate from the primary entity, but financially accountable to the University, are reported in separate columns to the right of the "primary entity" totals but are included in the "reporting entity" totals.

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns or separately from the financial data of the primary entity. In both situations, the information is labeled "component units".

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenues from tuition and student fees for summer sessions are reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and expenditures are reported when materials or services are received or when incurred. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance physical plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment, computer software developed or obtained for internal use and library books and materials; (2) mandatory transfers in the case of required provisions; and, (3) transfers of a nonmandatory nature in all other cases.

Basis of Accounting – Discretely Presented Component Unit

The financial statements of the FMU Center are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenue and related assets are recognized when earned and expenses are recognized when the obligation is incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Basis of Accounting – Discretely Presented Component Unit (Continued)

The University's discretely presented component unit conducts business-like activities similar to those found in the private sector. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of financial position, results of operations, and cash flows.

The accounting policies of the component unit conforms to GAAP applicable to governmental proprietary activities as prescribed by GASB. The component unit applies all applicable GASB pronouncements and, in accordance with GASB Statement 20, has elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, not in conflict with GASB standards. This component unit is classified as an enterprise fund type of the proprietary fund category.

Fund Accounting – University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All realized and unrealized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment funds which is accounted for in the fund to which it is restricted except for certain quasi-endowment income which is required by the Board of Trustees to be added to the principal. For those agreements which require current earnings not used and to be added to principal, the University records a mandatory transfer from the restricted current funds to the endowment fund.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted and restricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Accounting – University Funds (Continued)

The *Current Funds Auxiliary Enterprises* are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted and restricted current funds. Assets, liabilities, and fund balances are combined with other current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprise activities include housing, bookstore, food services, and telecommunications operations. Auxiliary enterprise expenditures charged to restricted current funds were for the Federal Work Study program, which is federally funded, and, is therefore subject to federal restrictions. The bookstore inventory and credit memos were sold to a private enterprise as of June 30, 2001 for $586,887. The $586,887 due from the sale is included in accounts receivable in the unrestricted current funds as of June 30, 2001.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, uncollectible loan write-offs, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes permanent endowment funds and funds functioning as endowments (quasi-endowments). The University does not have any term endowment funds. Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. All of the University's endowments require the income to be used for specified purposes. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds are established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets, all construction in progress, and debt related to expended or unexpended resources included in this fund subgroup. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts for Francis Marion University Foundation, a related party, and other organizations and groups directly associated with the University.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. For fiscal year 2001, the University remitted indirect cost recoveries totalling $17,534.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave, except that faculty member do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payment at termination. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for plant assets acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest and other related charges. Equipment acquired under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal, interest and other related costs on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant fund as the installments are paid.

Infrastructure assets are valued at cost and include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University. These assets are reported in the nonstructural improvements asset category.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investment in Plant (Continued)

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of the project, the capitalized costs are recorded as expenditures in the unexpended plant funds and the asset and any associated debt simultaneously are transferred to the investment in plant funds subgroup and recorded in the appropriate asset and liability accounts.

Library books, periodicals, microfilms and other library materials on computer data storage devices are recorded at cost when purchased and fair market value at the date of donation.

Computer software includes the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related cost for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. The costs of computer software developed or obtained for internal use is amortized on a straight-line basis over a 5 year period. $3,604 of amortization was charged for the fiscal year ended June 30, 2001.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of $5,000 and a useful life in excess of one year; computer software with a unit value of $5,000 and an expected useful life of one year or more; and all library books and materials which include books, periodicals, microfilms, and materials on computer data storage devices regardless of cost.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, fair market value at date of gift, or the unamortized balance of software costs where applicable, is removed from the investment in plant subgroup. Library books and materials are disposed of when they become obsolete, duplicated, worn or no longer support the purpose of the University. The disposal value used for the library books and materials is the average cost at the beginning of each fiscal year. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Asset values in the investment in plant subgroup include such interest costs.

Deferred Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for tuition, housing for the summer and fall academic terms and other fees which amounts have not been earned. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the term or semester for which the fees are applicable and earned. For the component unit, deferred revenues represent amounts received for which services have not been performed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Student Deposits

Student deposits represent housing room deposits, security deposits for possible facility damage and key loss, other deposits, and student fee refunds. Student deposits are recognized as revenue in the unrestricted current funds during the term or semester for which the fees are applicable and earned or when the deposits are nonrefundable to the students under the forfeit terms of the agreements.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Gifts and Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the University and/or its component unit either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The types of nonexchange transactions the University and its component unit engage in include voluntary nonexchange transactions, such as certain grants and donations.

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

a. The recipient has the characteristics specified by the provider;

b. The recipient has met the time requirements specified by the provider.

c. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the application program; and,

d. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

Promises of cash or other assets from nongovernmental entities are recognized when all eligibility requirements are met, provided the promise to give is verifiable and the resources are measurable and probable of collection. Gifts are a type of nonexchange transaction. Gifts include resources donated to the University for unrestricted or restricted institutional purposes. Unrestricted gifts are recognized as revenue in unrestricted current funds when all applicable eligibility requirements have been met. Restricted current funds gifts are recognized as additions to fund balances in the statement of changes in fund balances when the gift resources are received or promised (i.e., the earlier of when the donor announces the gift or notifies the University of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the university receives the monies). Restricted current funds gifts are recognized as revenue on the statement of current funds to the extent that such funds are expended for the restricted purposes during the current year and all eligibility requirements have been met. Other restricted gifts are recognized as additions in the applicable fund group/subgroup appropriate to the restricted purpose for which the resources were provided when received or promised (i.e., the earlier of when the donor announces the gift or notifies the university of the gift and if the promise is verifiable and the resources are measurable and probable of collection or of when the university receives the monies).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Gifts and Nonexchange Transactions (Continued)

Unrestricted resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenue by recipients.

Prepaid Items

Expenditures for goods and services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of advance payments for insurance, subscriptions and periodicals, and maintenance and service agreements.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as “cash and cash equivalents” represent petty cash, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State’s internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 14.

The State’s internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund’s equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost, and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University’s special deposit accounts is posted to the University’s account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University’s accumulated daily interest receivable to the total income receivable of the pool. Reported interest/investment income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

The FMU Center funds consists of a demand deposit checking account.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the “excess” earnings to the Federal Government under certain circumstances if they issue no more than $5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the liability is calculated annually. The arbitrage expenditures are valued using the rebate method. The expenditure and liability, if any, are recorded in the Retirement of Indebtedness subgroup and a reserve fund to liquidate the liability is established.

Information Technology Costs

Non-capitalized information technology (IT) costs related to the University's mission of instruction, research and public service are budgeted and reported in the academic support functional expenditure category. All other non-capitalized IT costs are not budgeted and the related costs are reported in the institutional support functional expenditure category.

Capitalized IT costs are reported in the applicable functional expenditure categories in the unrestricted current funds.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds. Reimbursement transactions for expenditures initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

Totals (Memorandum Only) Columns

Amounts in the “Totals (*Memorandum Only*)” columns of the Balance Sheet and the Statement of Changes in Fund Balances represent an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

Income Taxes

The University is a political subdivision of the State of South Carolina and is exempt from federal and state income taxes.

NOTE 2. CAPITAL IMPROVEMENT BONDS:

In fiscal year 2001 and prior years, the State authorized funds for improvements and expansion of university facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable.

A summary of the activity from this authorization during the year ended June 30, 2001 follows:

Act	Total Authorized	Amounts Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 2001	Undrawn Balance June 30, 2001
28 of 1999	$ 525,000	$ 112,000	$ 413,000	$ -0-
28 of 1999, as amended during fiscal year 2001	750,000	-0-	-0-	750,000
Total	$1,275,000	$ 112,000	$ 413,000	$ 750,000

NOTE 3. STATE APPROPRIATIONS:

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is the University's base budget amount presented in the General Funds columns of Section 5G of Part IA of the 2000-2001 Appropriation Act.

NOTE 3. STATE APPROPRIATIONS: (CONTINUED)

The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2001:

Original Appropriation	$ 14,046,810
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits (Proviso 63C.9.)	603,565
401K Matching Funds (Proviso 72.48)	56,657
Mid-year budget reduction	(156,557)
Appropriation Allocations from the State Commission on Higher Education:	
From the Children's Education Endowment Fund for:	
Palmetto Fellows Scholarships	134,809 (A)
Need Based Grants	378,507 (A)
For Access and Equity Desegregation Funding (Proviso 5A.5.)	16,416
For Performance Funding (Proviso 5A.6.)	1,077,138
For Performance Improvement Award	59,050
For LIFE Scholarships (2000 Act 453)	1,057,500 (A)
From Capital Reserve Fund Appropriations (June 1999 Joint Resolution R201, H369) for Institutional Funding	608,507
For Higher Education Awareness Program	560
From the State Higher Education Matching Gift Fund for Academic Endowment Match (Code of Laws 59-118-40)	54,856 (A)
For Research Initiative Grant	188
Revised Appropriations – Legal Basis	17,938,006
(A) Less, Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds	(1,625,672)
Funding Reported in Unrestricted Current Funds	$ 16,312,334

Life Scholarship funding of $7,272 that was received in the prior fiscal year 2000 was refunded to the State Commission on Higher Education during the current fiscal year. The $7,272 is included in the financial statements as refunds to grantors.

Proviso 72.44 of the 2000-2001 Appropriation Act authorized agencies to carry forward unspent appropriations up to the maximum of ten percent with limitations similar to those for the prior year. The University did not carry forward any appropriations pursuant to this proviso.

NOTE 4. BONDS PAYABLE:

At June 30, 2001, bonds payable consisted of the following liability which is reported in the investment in plant subgroup:

	Interest Rates	Maturity Dates	Balance June 30, 2001	Fiscal Year 2002 Maturities
Revenue Refunding Bonds, Series 1999	3.75 – 4.40%	2002-2011	$5,430,000	$ 980,000

NOTE 4. BONDS PAYABLE: (CONTINUED)

Bonds issued by the University include certain restrictive covenants. The Series 1999 Bonds are payable from and secured by a pledge of the net revenues derived by the University from the operation of various facilities after first paying the costs and expenses of operating and maintaining those facilities. Facilities include dormitories; apartment buildings; dwelling houses; bookstores and other University-operated stores; laundry; dining halls; cafeterias; parking facilities; student recreational; entertainment; and fitness-related facilities; inns; conference and other nondegree educational facilities; similar auxiliary facilities of the University; and other facilities which are auxiliary to any of the foregoing. The bond rate covenant requires the University to maintain and collect rates and charges for the use of the facilities at amounts necessary to maintain certain specified earnings levels at all times after providing for the payment of expenses for administration and the operation and maintenance of the facilities as may be necessary to preserve the same in good repair and condition. The University is required to generate net revenues available for debt service of not less then 100% of the debt service payments due in each applicable bond year.

The University purchased a bond insurance policy in favor of the bond trustee for the Series 1999 bonds to secure the payment of principal and interest for a period equal to the final maturity of the bonds in case of default.

The Series 1999 revenue funding bonds are not subject to redemption prior to maturity.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30,2001, are as follows:

Year Ending June 30,	Principal	Interest	Total
2002	$ 980,000	$ 215,560	$1,195,560
2003	1,000,000	178,810	1,178,810
2004	370,000	141,310	511,310
2005	385,000	127,435	512,435
2006	395,000	112,613	507,613
2007 through 2011	2,300,000	303,450	2,603,450
Total Obligations	$5,430,000	$1,079,178	$6,509,178

Receipts from a campus development fee and a plant fee designated solely for the purpose of debt retirement are recorded directly in the funds for retirement of indebtedness as student fees. Mandatory transfers from auxiliary enterprises revenue for debt retirement are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

The University reported interest expenditures of $241,716 related to bonds payable for the year ended June 30, 2001 and retired $930,000 of bonds payable during the fiscal year.

NOTE 5. LEASE OBLIGATIONS:

The University is obligated under operating leases for the use of copier equipment which expire in fiscal years 2003 and 2004. In addition, the University is obligated under capital leases for the acquisition of various equipment.

NOTE 5. LEASE OBLIGATIONS: (CONTINUED)

Future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2001 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2002	$ 43,206	$ 52,186
2003	42,862	46,160
2004	24,410	4,528
Total minimum lease payments	$ 110,478	$ 102,874
Less: Interest	(6,086)	
Executory and other cost	(21,193)	
Principal outstanding	$ 83,199	

Capital Leases

Capital leases are payable in monthly installments from unrestricted current funds resources and have terms expiring in fiscal years 2003 and 2004. Capital lease expenditures for fiscal year 2001 were $43,367, of which $29,939 represented principal and $13,428 represented interest, executory and other costs. Interest rates range from 5.1% to 5.2%. The following is a summary of the carrying values of assets held under capital lease at June 30, 2001.

Copier and stapler	$ 73,412
Mail system equipment	69,865
Total	$ 143,277

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2003 through 2004. These operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable if the State of South Carolina does not provide adequate funding. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis.

Total operating lease expenditures for fiscal year 2001 were approximately $108,000 for copier equipment, including maintenance and additional copy charges. The University reports these costs in the applicable current funds functional expenditure categories

NOTE 6. NONMANDATORY TRANSFERS:

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service and facility operating costs as required by bond indentures and law. Tuition, fees and other revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness fund subgroup until they are transferred by the State Treasurer into the general capital improvements funding accounts. For plant improvement bonds issued by the University, a written request for the transfer of funds in excess of required minimum balance is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer.

The University reports its general capital funding account in the retirement of indebtedness subgroup and the unexpended balance thereof as unrestricted fund balance. $2,128,883 was transferred within the fund subgroup into the general capital improvements funding accounts during the fiscal year ended June 30, 2001.

In fiscal year 2001, the University transferred $281,416 from the general capital improvements funding account to the unexpended plant funds subgroup to finance specific capital projects. That transaction is reported as a nonmandatory transfer and the unexpended balances in all such project accounts are reported in the unexpended plant funds as restricted fund balances.

The University transferred $2,273,600 from the retirement of indebtedness funds subgroup in accordance with bond covenant terms to the unrestricted current funds for operating expenditures of food services and housing auxiliary enterprises.

The University transferred from the unrestricted current funds $122,821 to the unexpended plant funds to fund current and future construction projects and $190,788 to the retirement of indebtedness fund for debt service.

The University transferred $119,066 from the unexpended plant fund to the unrestricted current fund for scholarships. These funds were transferred from the unrestricted current fund in a prior year and had not been spent.

In accordance with the investing and spending policy of the University's Board of Trustees, endowment derived restricted current fund revenues which may be spent in a fiscal year are limited to 7% of the initial amount of invested assets. The University's policy requires the excess earnings to be transferred to a quasi-endowment fund. For fiscal year 2001, there were no excess earnings.

NOTE 7. PENSION PLANS:

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

NOTE 7. PENSION PLANS: (CONTINUED)

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee’s average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for deferred annuity after five years service and qualify for a survivor’s benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is a result of a job related injury). A group-life insurance benefit equal to an employee’s annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The University’s actual contributions to the SCRS for the three most recent years ended June 30, 2001, 2000 and 1999 were approximately $1,028,000, $980,000, and $958,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid in the current fiscal year employer group-life insurance contributions of approximately $20,000 at the rate of .15 percent of compensation. In addition, the University paid the employer's 7.55 percent share of approximately $6,500 of pension costs for employees on educational leave with the employees paying approximately $5,100.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

NOTE 7. PENSION PLANS: (CONTINUED)

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82 percent which, as for the SCRS, included the 2.52 percent surcharge. The University's actual contributions to the PORS for the three most recent years ended June 30, 2001, 2000 and 1999 were approximately $32,600, $30,600 and $29,300, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately $600 and accidental death insurance contributions of approximately $600 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each retirement plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equal to one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

NOTE 7. PENSION PLANS: (CONTINUED)

Under State law, contributions to the ORP are required at the same rates as for the SCRS which is the 7.55 percent plus the retiree surcharge of 2.52 percent from the employer in fiscal year 2001.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were approximately $338,000 (excluding the surcharge) from the University as employer, and approximately $269,000 from its employees as plan members. No group-life insurance coverage was paid for these employees. Employee contributions of 6 percent and employer contributions of 5 percent were remitted directly to the respective annuity policy providers. The balance of the employer portion was remitted to the Retirement Division of the State Budget and Control Board. The obligation for payment of benefits resides with the insurance companies.

NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date.

Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 21,000 State retires met these eligibility requirements as of June 30, 2000.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of approximately $1,271,000 for the year ended June 30, 2001. As discussed in Note 7, the University paid approximately $464,000 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 9. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employees. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to $300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actively contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full-time employees making less than $20,000 as of July 1, 2000 are not required to contribute in order to receive the match.

Beginning January 1, 2001 the University contributed $25 per pay period for those participants receiving compensation on a twelve month basis and $33 per pay period for those participants receiving compensation on a nine month basis. Contributions paid for the year ended June 30, 2001, included $70,975 from State Appropriations and $6,450 from auxilliary funds.

NOTE 10. INVENTORIES:

Inventories for internal use (postage and fuel) are valued at cost. Dining services inventories for resale are valued at the lower of cost or market. A summary of inventories by category, cost determination method and value at June 30, 2001 follows:

Category	Method	Value
Dining Services	First-in, first-out	$ 20,987
Postage	First-in, first-out	38,594
Fuel	First-in, first-out	21,352
Total		$ 80,933

The University's bookstore inventory and credit memos were sold to a private enterprise as of June 30, 2001 for $586,887. The $586,887 from the sale is included in accounts receivable in the unrestricted current funds as of June 30, 2001. The inventory and credit memos were sold at the University's cost and the proceeds were credited to the acquired costs.

NOTE 11. INTERFUND LIABILITIES AND BORROWINGS:

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. There were no interfund liabilities resulting from this type borrowing as of June 30,2001.

NOTE 12. ACCOUNTS RECEIVABLE, STUDENT LOANS AND OTHER RECEIVABLES:

The $800,800 of accounts receivable in the unrestricted current funds includes $586,887 due from the sale of the bookstore inventory and credit memos (see Note 10) with the remainder being primarily due from students and sponsors of various contract courses. A provision for doubtful accounts of $20,992 was established for the unrestricted current fund for student accounts receivable based on credit losses experienced in prior years and evaluations by management of current portfolios.

The accounts receivable in the loan funds consist primarily of June, 2001 collections due from the third party servicing organization.

With minor exceptions, losses for loans to students and other accounts receivables are not estimated or recorded in the provision for doubtful accounts. At the time a loan to student is considered uncollectible, it is charged to the principal of the fund from which the loan was made. Any other account receivable balance that is written off is recognized in the period in which the receivable is considered uncollectible. Based on past experience, potential losses are not deemed to be material.

The $80,000 pledge receivable in the unexpended plant funds is the amount due on a gift restricted for the construction of a swimming pool. The total gift was for $175,000 of which $95,000 was received as of June 30, 2001.

NOTE 13. CONSTRUCTION IN PROGRESS AND COMMITMENTS:

The University has obtained the necessary funding for the construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available to satisfactorily complete the construction of such projects which are expected to be completed over the next year at an estimated total cost of approximately $2,378,000 (no costs were incurred as of June 30, 2001 on two projects budgeted for $950,000). Of the total approximate cost, approximately $733,000 was unexpended at June 30, 2001. The University had commitment balances with contractors and others of approximately $617,000 related to these projects.

The capital projects at June 30, 2001, which constitutes construction in progress that is to be capitalized when completed are listed below:

Project	Total Budgeted Cost	Total Expended Amount
Energy facility upgrade	$ 525,000	$ 499,077
Gymnasium floor upgrade	145,000	115,000
Student housing data network	122,863	14,000
Student swimming facility	285,000	102,120
Wallace Cottage	350,000	3,188
Totals	$1,427,863	$ 733,385

NOTE 13. CONSTRUCTION IN PROGRESS AND COMMITMENTS: (CONTINUED)

At June 30, 2001, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities and certain non-capital technical support. Costs incurred to date on these projects amount to approximately $1,100 at June 30, 2001, and the estimated costs to complete are approximately $232,000. At June 30, 2001, there were no outstanding commitment balances relating to these projects.

The University's funding for the current fiscal year for the capitalized and non-capitalized projects includes capital improvement bonds proceeds, gifts and other resources.

NOTE 14. CASH AND DEPOSITS:

All deposits of the University are under the control of the State treasurer who, by law, has sole authority for investing State funds. Deposits of the FMU Center, the University's discretely presented component unit, are deposited in a financial institution and are not under the control of the State Treasurer.

The following schedule reconciles cash and deposits within the footnotes to the balance sheet amounts:

Balance Sheet		Footnotes	
Cash and cash equivalents	$6,936,706	Cash on hand	$ 27,075
		Deposits held by State Treasurer	6,909,631
Total before component unit	6,936,706	Total before component unit	6,936,706
FMU Center – Cash and cash equivalents	600	FMU Center – Other deposits	600
Total including component unit	$6,937,306	Total including component unit	$6,937,306

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. Cash and cash equivalents balances reported on the balance sheet reflect $69,015 in unrealized depreciation as of June 30, 2001

Other Deposits

The deposits of the FMU Center at year-end were entirely covered by federal depository insurance.

NOTE 15. RELATED PARTY:

The Francis Marion University Foundation (the Foundation), a separately chartered legal entity whose activities are related to those of the University, exists primarily to provide financial assistance and other support to the University and its educational program. The financial statements of this organization are to be audited by independent auditors retained by the Foundation. The financial activities of this organization are not included in the University's financial statements, however, the University's statements do include those transactions between the University and the Foundation.

In conjunction with its implementation of GASB Statement No. 14, the University annually reviews its relationship with the Foundation and has excluded this entity from the reporting entity because it is not financially accountable for it. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, the Foundation may become a component unit of the University and/or part of the financial reporting entity.

Various financial activity occurred between the University and its component unit and the Foundation. A summary of these transactions and/or balances at June 30, 2001 and for the year then ended follows:

a) Scholarships awarded by the University and funded by the Foundation. (Includes $11,575 owed to the University at June 30, 2001 and included in accounts receivable.) The University recorded these amounts in private gifts revenue and in the scholarships expenditure category in the restricted current funds.	$ 373,586
b) Awards for lectures, retreats, competitions, and certain other expenditures paid by the University and funded by the Foundation (includes $3,071 owed to the University at June 30, 2001 and included in accounts receivable.) The University recorded these awards in private gifts revenue and in student services expenditure category in the restricted current funds.	$ 61,234
c) Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. The University recorded these amounts as private gifts revenue in the restricted current funds. The expenditures were reported in the instruction expenditure category in the restricted current funds.	$ 58,917
d) Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of institutional support expenditure category in unrestricted current funds.	$ 66,537

e) Group life insurance premium payments of $9,041 were made from the University's agency fund that are reimbursable by the Foundation. $741 was due the agency fund for premiums paid in excess of reimbursements by the Foundation as of year end. The University recorded these amounts in private gifts revenue and in the instruction expenditure category in the restricted current funds.

f) Rent for a motor vehicle used by the University's President in the amount of $7,226 was paid by the Foundation. Also, the Foundation is the lessee. Other payments made by the Foundation for the benefit of the University and its staff included $5,879 for club memberships and $9,234 for travel. The University recorded these amounts in private gifts revenue and in expenditures under the applicable expenditure categories in the restricted current funds.

NOTE 15. RELATED PARTY: (CONTINUED)

g) The Foundation was due $9,488 from the University for various expenditures paid for the benefit of the University. The $9,488 is included in accounts payable in the current unrestricted current funds. The University recorded these expenditures in the student services expenditure category in the unrestricted current funds.

h) The University continued a loan agreement with the Foundation in which the University initially lent the Foundation $200,000, (all of its endowment fund assets), to invest with a guarantee of a minimum annual return of 7%. The note receivable is due on demand. The University policy requires that earnings on the endowment assets loaned to the Foundation in excess of 7% must be transferred from the restricted current funds to a restricted quasi-endowment fund. In addition, the net balance of excess earnings ($715 at June 30, 2001) is also to be loaned to the Foundation for investment and is reported in accounts receivable in the quasi-endowment fund. Interest earned and due from the Foundation to the University's restricted current funds, as of June 30, 2001 is $14,000. This is based on the 7% guaranteed return. Total Losses on the endowment fund assets were $37,685 for fiscal year 2001 and is reflected in the quasi-endowment fund. Lending of the University's endowment resources to the Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise funds on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.

i) The Foundation owed $578 to the University's agency fund for advances in excess of reimbursements.

j) The Foundation made a $600 interest-free loan to the Francis Marion University for Research and Professional Service in November, 2000.

The unaudited financial statements of the Foundation as of and for the year ended June 30, 2001 are presented on the next two pages.

NOTE 15. RELATED PARTY (CONTINUED)

STATEMENT OF FINANCIAL POSITION - UNAUDITED
JUNE 30, 2001

ASSETS	
Cash and investments	$ 67,896
Investments	9,282,296
Receivables:	
Contributions, net	216,348
Assets held in trust by others	841,146
Cash surrender value of life insurance	58,643
Equipment, net	18,504
Other assets	48,286
Land held for resale	28,000
TOTAL ASSETS	$ 10,561,119
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 56,199
Note payable	200,000
TOTAL LIABILITIES	256,199
Net Assets:	
Unrestricted	$ 4,006,944
Temporarily restricted	1,300,631
Permanently restricted	4,997,345
TOTAL NET ASSETS	10,304,920
TOTAL LIABILITIES AND NET ASSETS	$ 10,561,119

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 15. RELATED PARTY (CONTINUED)

STATEMENT OF ACTIVITIES - UNAUDITED
FOR YEAR ENDED JUNE 30, 2001

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, gains and other support:				
Gifts and bequests	$ 78,500	$ 479,589	$ 202,657	$ 760,746
Grants	2,200	20,000		22,200
Trust income	44,000	24,063		68,063
Income on investments	10,989	153,721	1,502	166,212
Net realized and unrealized				-
gains (losses) on investments	(1,344,324)		(61,519)	(1,405,843)
Total revenues and gains	(1,208,635)	677,373	142,640	(388,622)
Net assets realized from restrictions	461,712	(461,712)		
Total revenues, gains and other support	(746,923)	215,661	142,640	(388,622)
Expenses:				
Program expenses	513,886			513,886
General and administrative	150,735			150,735
Interest expense	14,000			14,000
Fund raising	135,920			135,920
Total expenses	814,541			814,541
Change in net assets	(1,561,464)	215,661	142,640	(1,203,163)
Net assets, July 1, 2000	5,568,408	1,084,970	4,854,705	11,508,083
Net assets, June 30, 2001	$ 4,006,944	$ 1,300,631	$ 4,997,345	$ 10,304,920

NOTE 16. TRANSACTIONS WITH STATE ENTITIES:

The University had significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking bond trustee and investment services from the State Treasurer; and, legal services from the Attorney General.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, grant services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, surplus property disposal fees, insurance coverage, and telephone and interagency mail services. Significant payments were also made for unemployment to the South Carolina Employment Security Commissions and workers' compensation coverage for employees to the State Accident Fund. The amounts of 2001 expenditures applicable to these transactions are not readily available.

The University purchased only nominal amounts of goods and services from other State agencies during fiscal year 2001.

The State Energy Office of the South Carolina Budget and Control Board made a grant of $23,750 to the University to partially fund the energy facility upgrade project.

The University received $36,019 from the Medical University of South Carolina for a cooperative nursing program which is reported in the State grants and contracts revenue category in the unrestricted current fund. $10,264 was due to the University as of June 30, 2001.

As a subrecipient, the University received federal grants from other State agencies, primarily the State Department of Education. Also, the University received State funds for providing contract courses to school districts and other entities.

The University provided no services free of charge to other State agencies during the fiscal year.

NOTE 17. CONTINGENCIES AND LITIGATION:

The various federal programs administered by the University for fiscal year 2001 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University's management believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimate has not been recorded.

The University is a defendant in litigation arising from the conduct of its normal business. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of the litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the University. The risk of material loss in excess of insurance coverage is unlikely and there is no evidence to indicate that a loss expenditure and liability should be recorded at year-end.

NOTE 18. RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The University recorded expenditures of approximately $109,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in unrestricted current funds in the applicable functional expenditure categories in which the payroll costs for the respective employees are recorded. No accrued payroll liability was reported at June 30, 2001 for related disbursements to be made in fiscal year 2002. The compensated absences liability related to eligible employees who have not elected to participate as of June 30, 2001 is approximately $60,000.

NOTE 19. RISK MANAGEMENT:

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for collision and comprehensive coverage on certain motor vehicles. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and,
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

NOTE 19. RISK MANAGEMENT: (CONTINUED)

Insurance Coverage (Continued)

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, including non-owned;
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The fidelity coverage has policy limits and deductibles, some of which vary for regular and peak periods.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories for its unrestricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits for real property, its contents and other equipment, business interruption, and tort deductibles for employee fidelity bond coverage to a State or commercial insurer. The University reported expenditures of $2,500 in the current year for actual claims payments related to such retained risks of loss. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 2001, based on the requirements of GASB Statement No. 10 and No. 30 which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2001 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year end. Therefore, no loss accrual has been recorded.

NOTE 19. RISK MANAGEMENT: (CONTINUED)

Self-Insurance

The University's management believes for risks of loss the occurrence of which it considers a remote likelihood (i.e., collision and comprehensive coverage on certain motor vehicles), it is more economical to manage such risks internally and fund such losses, should they occur, from unrestricted current funds and government disaster assistance.

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities when recorded include a provision for unsettled claims, claims in the process of review reported in unrestricted current funds, and claims that have been incurred but not reported (IBNR claims) which are reported separately. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated based on the estimated ultimate costs of settling the claims including the effects of inflation and other societal and economic factors and using past experience adjusted for current trends and other factors that would modify past experience. The claims liability includes deductions for estimated recoveries on settled and unsettled claims and includes estimated costs of specific, incremented claim adjustment expenditures. They are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and the economic and societal factors.

In management's opinion, claims losses in excess of coverage are unlikely, and if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 20. GIFTS AND PLEDGES:

Gifts include resources donated to the University for unrestricted or restricted institutional purposes except those gifts received as additions to permanently restricted net assets which are recorded as donations. Gifts are non-exchange transactions and are recognized when all eligibility requirements are met, provided the promise to give is verifiable and the resources are measurable and probable of collection.

Most pledges of gifts for the benefit of the University are received and managed by the Francis Marion University Foundation (Foundation) which is disclosed herein as a related party. Pledges by the Foundation to the University will be recorded as revenue by the University only after payment conditions for scholarships, construction and other costs have been met.

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 21. FUND BALANCES:

The balances of the unrestricted current funds at June 30, 2001 are as follows:

Educational and general funds	$ 124,890
Auxiliary funds	469,286
Total	$ 594,176

The balances of the restricted current funds at June 30, 2001 are as follows:

Grants and contracts	$ 49,887
Scholarships and student aid	177,976
Restricted for departments and other specified purposes	169,620
Total	$ 397,483

The balances of the loan funds at June 30, 2001 are as follows:

U.S. Government grants refundable	$1,858,142
Donor restricted	20,663
Total	$1,878,805

The balances in the endowment and similar fund at June 30, 2001 is restricted.

Endowment:	
Restricted	$ 200,000
Quasi-endowment:	
Restricted	715
Total	$ 200,715

The balances of the plant funds at June 30, 2001 are as follows:

Unexpended plant fund:	
Restricted	$1,833,590
Unrestricted - designated	425,933
Total	$2,259,523
Retirement of Indebtedness fund:	
Restricted	$1,279,903
Unrestricted – designated for capital projects funding	3,032,615
Total	$4,312,518

NOTE 22. RECLASSIFICATIONS

Effective July 1, 2000 the University elected to reclassify the excess earnings on invested assets in the endowment fund as an account receivable instead of increasing to the note receivable balance. The change resulted in the following reclassifications as of June 30, 2000:

	As Previously Reported	Increase (Decrease)	As Restated
Balance Sheet/Endowment Fund			
Accounts receivable	$-------0-------	$ 38,400	$ 38,400
Note receivable	$ 238,400	$ (38,400)	$ 200,000

NOTE 23. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS:

The Governmental Accounting Standards Board has issued Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments, and Statement No. 35 Basic Financial Statements and Management's Discussion and Analysis – for Public Colleges and Universities. These new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

FRANCIS MARION UNIVERSITY

MANAGEMENT LETTER COMMENT
JUNE 30, 2001

01-1 FAILURE TO OBTAIN APPROVALS FOR ENGAGING ATTORNEYS

The University engaged the services of three attorneys without obtaining prior Attorney General approval as required by Section 11-35-1260 of the South Carolina Code of Laws.

We recommend that prior Attorney General approval be obtained as required before the University engages attorneys.

MANAGEMENT'S RESPONSE

APPENDIX A

Approval of Attorney Fees

Response: Each year the written approval of the Attorney General is required for the engagement of outside counsel. Prior approval had been obtained, but had expired, on two attorneys paid during fiscal year 2000-01. One of the three referenced without Attorney General approval was a mediator hired by an attorney performing service for the university. This violation occurred as an oversight during a period of transition in the office responsible for securing the approval. The procedure for obtaining approval of attorney services has been reviewed with appropriate offices and will be adhered to in the future.